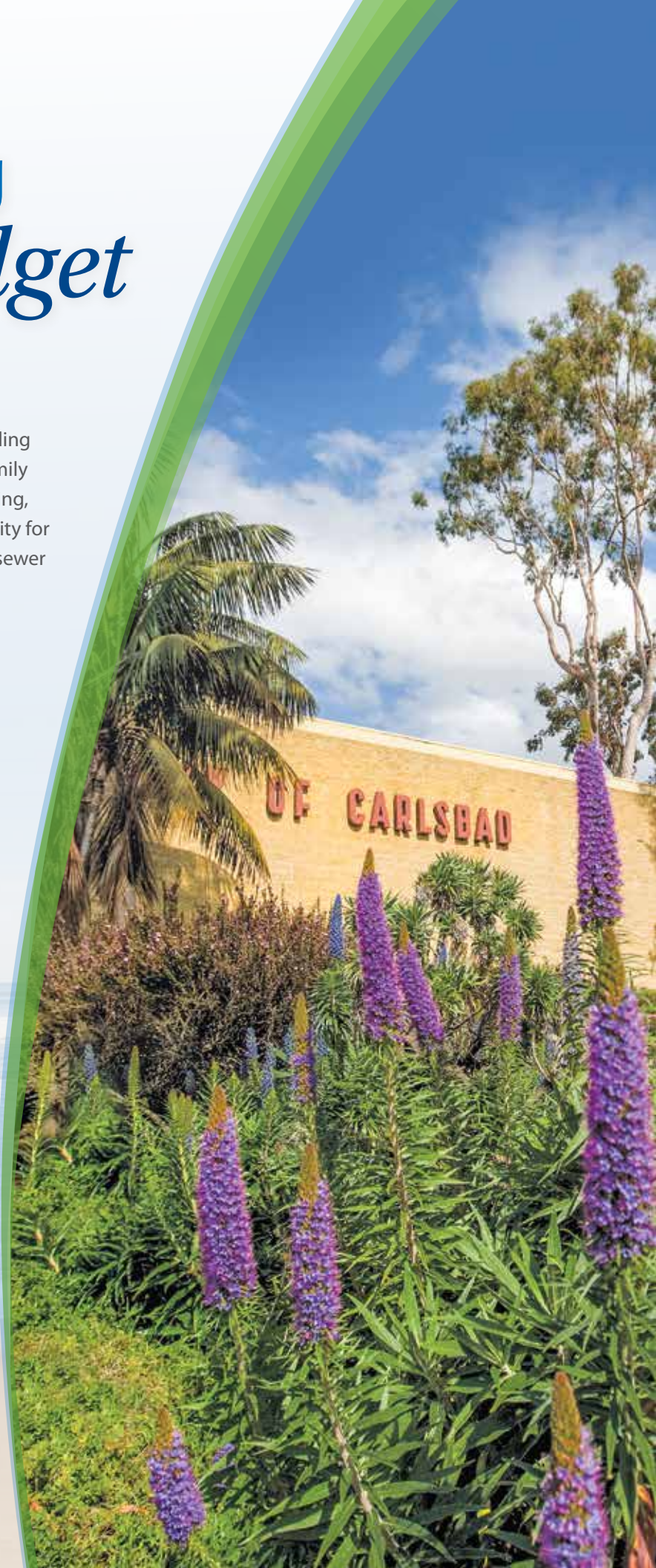


Understanding *the City Budget*

The City of Carlsbad's annual budget is like the spending plan for a typical family, only much larger. While a family might plan for such expenses as housing, food, clothing, transportation or doctor bills, the city has responsibility for police and fire protection, libraries, parks, water and sewer systems, roads and more.

Each year as the city prepares its budget, the City Council, with input from the community and city staff, sets priorities for the coming year. The finished product is a balanced budget designed to make the best, most efficient use of the money entrusted to the city by the taxpayers.

The following pages explain where the city gets its money, the rules and guidelines for spending those dollars and how the city's annual spending plan takes shape.



The City's Responsibilities



First and foremost, Carlsbad city government provides services vital to maintaining a high-quality, safe community. These core services include police and fire protection and basic infrastructure like water, sewer and drainage systems, and paved roads and sidewalks. Services also include public libraries, parks and open spaces, and recreational programs.

In addition to covering day-to-day services that are visible to the public, the city budget also includes important functions like community development, building inspection and environmental management, as well as functions common to all organizations such as technology, human resources and accounting.

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Separate Pots of Money

Not all budget dollars are the same. Some of the money the city receives goes into what is called the "general fund." Money from the general fund is unrestricted, meaning it can be spent on day-to-day services, projects and other city initiatives, under the City Council's discretion.



General Fund

Most of the general fund money comes from three primary sources: property tax, sales tax and transient occupancy tax, also known as the hotel tax. Other sources of general fund money include building permit fees, business license tax, recreation fees and interest earnings.

The general fund pays for such core services as police and fire protection, libraries, parks and recreation, housing and neighborhood services, community and economic development, and street maintenance and repair.

Special Funds

The city also receives money from a variety of other sources, which can only be used for specific purposes. These other sources include water, sewer and trash fees, gasoline taxes and developer fees, as well as other federal and state funding. Money collected from water and sewer customers must be used to purchase water and operate and maintain the water and sewer systems. Gasoline taxes must be used to pay for road improvements and repairs, and cannot be used on general city services. Development fees must be used for projects that serve the developments where the fees are generated.

Capital Improvement Budget

Along with the operating budget, the city prepares a capital improvement budget each year, which is used for the construction of major projects such as fire stations or other city buildings, parks and streets. As city officials set priorities for capital projects based on goals set by the City Council, the growth management plan and the community's values, they must also consider the ongoing cost associated with many of these projects. For example, the city might have the money in its capital budget to pay for construction of a park, but the city's operating budget must also include the money to pay for the staff to run the park, and annual upkeep and expenses, such as maintenance, security and utilities.



Ingredients for a Sound Budget

The Carlsbad City Council has established core fiscal principles to guide staff during the budget process. The city must have a balanced budget each year, and one time funds are not used for ongoing expenses. "One time funds" could come from the sale of a property, a legal settlement or other sources that are not ongoing. When revenues drop due to fluctuations in



the economy, the city tightens its belt to ensure that it will be able to pay its bills. The city also maintains prudent reserves in anticipation of sudden, unforeseen expenditures, just like a family might set aside money each month in case of a "rainy day."

The city has also established criteria for setting its spending priorities; for example, when looking at possible projects, city staff ask a series of questions, such as whether the project is needed for the community's health and safety, to satisfy a legal mandate or support the community's priorities.

10-Year Forecast

Every year, the Finance Department updates its 10-year economic forecast, which gives city leaders a glimpse of the economic future in both the near- and long-term. The economic forecast is critical as the new budget is being planned. This disciplined budget process allows the city to provide services and build reserves during periods of prosperity and growth, and to maintain operations with the least disruption possible during leaner economic times. By living within its means, and making adjustments when necessary, the city is able to stay on an even keel and avoid disruptions of vital services.



Community Input

The community plays a valuable role in establishing the city's budget each year. During an extensive, two year public involvement process called Envision Carlsbad, the city asked the community about its overall priorities for the future of Carlsbad. The resulting Carlsbad Community Vision contains nine core community values that help guide everything the city does, including the spending priorities.

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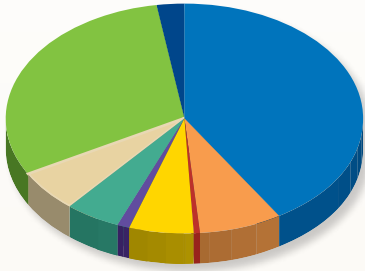
Community members can continue to be involved in city decision making by providing input at boards and commission meetings, City Council meetings and project-specific workshops held throughout the year, as well as sending feedback to the city via emails and letters. This input guides the City Council as it sets budget priorities for city government. The city's budget is available for review at City Clerk's Office, library branches and online at the Finance Department Web page, www.carlsbadca.gov/finance.



The Budget Cycle

Where the Money Comes From*

(in millions)

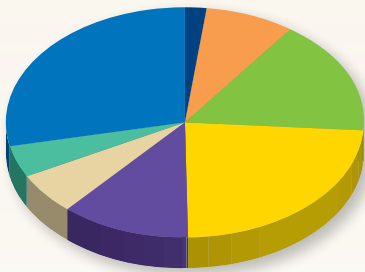


Taxes	116.3
Interdepartmental	21.5
Licenses & Permits	1.7
Charges for Services	16.1
Income From Investment & Property	3.5
Intergovernmental	14.2
Other	16.2
Utility Charges	86.3
Impact Fees/Special Taxes	6.9

* Based on fiscal year 2014–15 adopted budget

Where the Money Goes*

(in millions)



Policy & Leadership	6.2
Administrative Services	23.6
Public Safety	48.3
Capital Projects	69.7
Community Services	35.1
Community Development	17.1
Non Dept. & Contingency	13.5
Public Works	83.6

* Based on fiscal year 2014–15 adopted budget

The public generally hears about the city's budget in June, when the City Council holds its budget hearings and passes a budget for the next fiscal year, which starts July 1.

But behind the scenes, city staff—with direction from the City Council— starts working on the budget months earlier, in October and November of the previous year. In reality, work on the city budget goes on all year long.

Each fall, the city's Finance Department studies the previous year's budget to determine what changes might be needed based on revenue projections and spending. Following this analysis, finance staff begins assembling a draft of the next fiscal year's budget.

Department Budgets

After the first of the year, city departments begin working in earnest on their own budgets, in accordance with the goals established by the Council.



In a typical year, the department staff would start by looking at the spending plan for the previous year. Changes to the budget could be needed based on anticipated changes in the consumer price index, salary increases, and new projects or initiatives.

Overall City Budget

In March, departments submit their budgets to the Finance Department, where staff analyze and assemble the overall city budget. The city manager and a team of other city staff review the budget in April, and Council members are briefed on the budget in May and June.

Budget Workshops

In June, the City Council holds public workshops on the budget for the coming year, and a separate public workshop is held for community members to learn about the budget and ask questions.

Adoption of the Budget

The City Council holds a final budget meeting in mid- to late June to approve the new city budget, before the start of the new fiscal year on July 1. Even after the new budget is adopted, the Finance Department monitors both ongoing revenue and expenditures, recommending adjustments as necessary. And of course, by fall, the entire budget cycle begins once again for the new fiscal year.